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SUBJECT: WORLD BANK BOOSTS COLOMBIA'S "DOING BUSINESS"
RANKING

¶1. (SBU) SUMMARY: According to the World Bank's "Doing Business 2008" report released September 27, companies are finding it easier to do business in Colombia. In comparison to last year, Colombia improved 13 positions to 66th out of 178 countries ranked. The World Bank identified Colombia as the top reformer in Latin America in 2007 -- and among the top 6 globally -- as a result of progress in trade facilitation, investor protection and reducing the tax burden. In several areas, USG assistance directly supported cited reforms. However, Colombia slipped backwards in facilitating the employment of workers, registering property and enforcing contracts. Local private sector contacts acknowledged Colombia's progress but emphasized the GOC must do more to expand access to credit. END SUMMARY.

Progress on Trade, Investor Protection, and Taxes

¶2. (U) Colombia registered its largest improvement in the area of trade facilitation, jumping 23 positions as a result of its efforts to extend port operating hours and streamline duplicative customs inspections. These steps have reduced time in ports by an average of three days. Colombia improved 14 positions to 19th in the world for investor protection after implementing a decree to require increased related-party transaction disclosures. Colombia moved five positions up for its efforts to simplify tax payments and filing that cut compliance time by an average of 41 percent or 188 hours per year. The GOC also reduced Colombia's high real tax rates on corporations. Many analysts blame Colombia's complex tax system and high rate of taxation for fostering the country's high rate of business informality.

USG Assistance Supporting Reforms

¶3. (U) The U.S. government, through USAID, has provided assistance to Colombia in several reform areas commended in the 2008 report. USAID supported trade facilitation through the development of a modern risk management model for the Colombian customs system and the establishment of simultaneous inspection procedures for police, health, and customs authorities. The two reforms eliminate duplication and have reduced inspection time in ports by approximately 30 percent. In investor protection, USAID assisted the Ministry of Finance and Financial Superintendency in organizing the securities market information system to require securities brokerages to provide more rigorous and regularized

reporting. Specific disclosure requirements now replace the previous subjective and vague reporting requirements. On taxes, USAID did a comprehensive analysis of the Colombian tax structure and its impact on competitiveness that included several recommendations incorporated into the GOC's 2006 tax reform. Adopted recommendations included reduction of the corporate income tax, elimination of the foreign remittance tax, rationalization of investment deductions, simplifying tax computations, and eliminating complex subsidy schemes.

Still Room for Improvement

¶4. (U) Despite improvements in several areas, Colombia ranks among the least efficient countries (147th) in the world in contract enforcement with an average time to enforce a contract of 1,346 days. Colombia also still lags on ease of employing workers, starting a business, and accessing credit. Disturbingly, Colombia slid 13 positions compared to 2007 for registering property. Finally, even with positive steps on taxes, Colombia still ranks 167th in tax burden with small businesses paying an average of 82 percent of commercial profits in taxes, making 69 tax payments a year and spending 47 days complying with all tax requirements.

¶5. (SBU) National Association of Industries (ANDI) Vice President Hernan Puyo told EconOff October 4 that the 2008 report accurately reflected improvements in Colombia, but said the single biggest boost for facilitating business has been the improved security situation throughout the country. He cited limits on access to credit for small and medium enterprises as a continuing impediment and said he expected contract enforcement to improve as more legal cases are handled under the new "oral argument" system rather than the previous "written argument" system. Separately, Hernando

Jose Gomez, President of Colombia's Council on Competitiveness, cited conflicting and onerous regulations as a major bridle on competitiveness, but said Colombia's biggest challenge for long-term economic development remained increasing investment in education, infrastructure and innovation. He identified all three as potential areas for greater U.S-Colombia economic engagement.

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